



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m October 21, 2003. The following members were present:

Jody B. Olson
J. Kirk Sullivan
Dennis Johnson

Trustee Simmons and Trustee Ahrens were absent and excused. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon
Bill Palumbo
Drew Black
Casey Maslonka
Brian McGrath
Charlie Brown
Doug Bates
Mike Boren
Matt Freeman
Matt Haertzen
Robert Schmidt
Geoff Bridges
Dona Van Trease
Brent Nye
Jim Shakelford
David High

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co
REAI
Clearwater Advisors
Clearwater Advisors
LBO
EFIB
Milliman USA
Milliman USA
IPEA
Boise School District
IEA
Attorney General's Office

Rene Martin
Ray Smith
Meridith McCullough
Ken Duncan
Lou Henry
Richelle Sugiyama
John R. Doner

Attorney General's Office
Maximus
Maximus
Milberg Weiss
Deloitte & Touché'
PERSI
PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the September 30, 2003, regular meeting of the Retirement Board as submitted.

PORTFOLIO

Monthly Portfolio Update: Mr. Maynard discussed his investment report dated October 19, 2003 which was an update from a version previously provided to the Board. In the report and in his discussion, Mr. Maynard noted the following: The excellent relative and absolute performance of the PERSI fund continues, rising over 3.4% since the last Board meeting, up 8.7% for the fiscal year-to-date, and up 17.9% for the calendar year. The equity markets apparently accurately foresaw a substantial improvement in both general economic conditions and corporate earnings. Although corporate earnings appear to continue to be healthy, that rise has appeared to be moderate on concerns of a continued weakness on the jobs front.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing within expectations given the markets.

The emerging markets and international portfolios have the best absolute performance, while TIPS have the worst. Zesiger, Brandes and TCW have the best relative performance for the fiscal year-to-date, while private equity and Mountain Pacific have the worst.

PERSI's overall performance continues to beat the underlying policy benchmarks (the indexed returns), due primarily to continued outperformance by global equity.

Month-to-date returns were reported as 3.3% with a total fund value of \$7,063,858,976. This is an increase in market value for the fiscal year of \$503,249,109.

Mr. Maynard reviewed the performance of the Defined Contribution (Choice Plan) funds. A summary of plan performance is now included in the monthly report to the Board.

Mr. Maynard also provided an update on the private equity and real estate portfolios: the investment committee will be reviewing potential private equity partnerships in November and we are finalizing the Koll partnership, which is a real estate investment. Trustee Johnson asked what impact the weakened dollar vs. the yen and euro is having on our international investments. Mr. Maynard said it depends on where the international companies sell their products. If they sell them to the U.S., then they would have more difficulty selling their goods. There was some discussion of the Chinese economy and the effect it has on the economies of other nations.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Mr. McGrath said there are lots of signals that the U.S. economy is looking strong for this year and next. He said that although there is talk of how jobs are being exported to China, the U.S. manufacturing output has grown; and while the manufacturing segment has grown, manufacturing jobs have not, indicating machines have taken the jobs. Therefore, we're 'exporting' jobs to technology, not to China. Dennis Fitzpatrick has read that China is exporting manufacturing jobs to other countries even faster than the U.S. is.

Rod MacKinnon said the odds favor a decline in the markets in the short term and predicted a lower fourth quarter for the markets. Bill Palumbo said the markets are being led by lower quality stocks and believes that at some time this must change so higher quality stocks start performing better. Doug Bates looks for a gradual increase in long term interest rates but expects short term rates to remain stable.

Base Plan Actuarial Valuation: Actuary Robert Schmidt began his review of the July 1, 2003 Actuarial Valuation saying with the 1% mandatory COLA, the amortization period is at 19.4 years. If the full discretionary COLA of 2.2 is awarded, that would rise to 20.1 years. Answering a question from the Chair, Mr. Schmidt said before last year, 1989 was the most recent year that retirees did not receive the maximum allowable COLA.

Mr. Schmidt said expected benefit payments in the coming years will increase because of the Boomers reaching retirement age. Cash flow will be less and is expected to turn negative around 2011. Mr. Winkle said every year our retirements are increasing. The expected Boomer retirement bulge is already beginning.

FRF Preliminary Valuation: Mr. Schmidt reviewed tables from the preliminary FRF Valuation, noting that this is a closed plan with about 57 active members. Contribution rates for this plan include the PERSI rate plus an excess cost rate to pay off the liability that has existed since PERSI began administering the plan. Mr. Johnson asked why everyone else's rates were increased except the FRF rate. Mr. Winkle said with the adoption of the pending rules which will be discussed later in the meeting, the FRF rate would increase proportionately. Chairman Olson asked how these rates compare to those of the Lewiston police plan. Mr. Winkle said we do not know; however, their plan benefits are different so a meaningful comparison would be difficult.

By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously approved the PERSI Base Plan Actuarial Valuation.

FISCAL

FY2003 Draft Audit Results: Financial Officer Jim Monroe reviewed the Management Discussions & Analysis pages of the report which help the reader understand the details of the financial statements and supplemental schedules which follow. Mr. Lou Henry of Deloitte & Touché reviewed the draft of the Independent Auditors' Report. When they add the final FRF numbers, they will finalize the report. He said Trustee Simmons had asked them to look especially at the travel expenses because of the heightened interest locally this year. PERSI's travel expenses are small and the audit found them to be "squeaky clean," meeting the state policies. The concluding sentence of the report states: "We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. " All prior year recommendations have been implemented. There was further discussion of the final presentation of the report. It will be on the agenda for adoption at the November meeting.

Update and Expense Reports: Financial Officer James Monroe had previously provided a memorandum dated September 23, 2003 to the Trustees which summarized current fiscal items of interest. Discussions are underway with Mellon Bank to finalize fees for custody services covering the three years beginning December 1, 2003. The fee schedule portion of the contract is reviewed and re-negotiated every three years. The basic contract terms should remain the same. Mr. Monroe reviewed the details of the Travel, Administration and Portfolio expense reports.

LEGAL

Pending Rules: Deputy Attorney General Brad Goodsell reviewed his October 14, 2003 memorandum previously furnished to the Board. By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously approved rules implementing legislation changes relating to public safety officer death benefits, Docket Nos. 59-0103-301 as set forth in the notice.

After discussion of the way the FRF excess costs are paid, by separate motion duly made by Trustee Sullivan and seconded by Trustee Johnson, the Board unanimously approved rules gradually increasing all contribution rates beginning July 1, 2004 (Docket No. 59-0103-0302) as set forth in the notice.

Petition to Change Rules: A petition to change the rules to allow a firefighter to retire, receive a PERSI retirement benefit and continue to work for the same employer and accrue a new PERSI benefit was brought before the Board. After discussion, by motion duly made by Trustee Johnson and seconded by Trustee Sullivan, by unanimous vote of those present, the Board denied the petition.

EXECUTIVE DIRECTOR

Business Process Tracking Report Format A sample of the proposed monthly status report on the BPR project was provided to the Trustees. The intent is to have a narrative report and track a summary of the previous Gantt chart to provide an up-to-date progress report for the Board each month.

Status Update: Mr. Winkle reviewed the report he had previously provided to the Board regarding on-going projects at PERSI. Our DFM budget analyst has asked us to provide budget numbers we would recommend if we were required to break the BPR project into fiscal years rather than a single appropriation with carry-over authority. We are working on those numbers. Mr. Winkle also has scheduled a meeting the JFAC co-chairs Maxine Bell and Dean Cameron to discuss the funding status of the PERSI contribution rates, legislation and our budget.

The call management software is being tested in the Benefits Section. One feature of this system is that it forwards an incoming call to a "live body" in a group rather than stopping at one individual's voice mail box. Eventually, we expect this system to allow the Coeur d'Alene and Pocatello offices to seamlessly transfer member calls to the specialist in the Boise office.

The review of investment consultant applicants is underway. Trustee Simmons, Trustee Sullivan, Mr. Winkle and Richelle Sugiyama are meeting later in October to develop a short list. Those applicants will then make presentations to the full Board for final selection.

Future Board Meetings

By motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the Board set the dates for the regular meeting of the Board for 2004. The dates for the remainder of 2003 and for 2004 are:

Tuesday, November 18, 2003, 8:30 a.m., Boise – PERSI
Tuesday, December 16, 2003, 8:30 a.m., Boise – PERSI (Tentative)
Tuesday, January 27, 2004 8:30 a.m., Boise - PERSI office
Tuesday, February 24, 2004, 8:30 a.m., Boise - PERSI office
Tuesday, March 30, 2004, 8:30 a.m., Boise - PERSI office
Tuesday, April 27, 2004, 8:30 a.m., Boise - PERSI office
Tuesday, May 25, 2004, 8:30 a.m., Boise - PERSI office
Tuesday, June 22, 2004, 9:30 a.m., Pocatello, Idaho
Tuesday, July 27, 2004, 8:30 a.m., Boise - PERSI office (Tentative may cancel)
Tuesday, August 24, 2004, 8:30 a.m., Boise - PERSI office
Tuesday, September 28, 2004, 8:30 a.m., Boise - PERSI office
Tuesday, October 26, 2004, 8:30 a.m., Boise - PERSI office
Tuesday, November 30, 2004, 8:30 a.m. Boise - PERSI office
Tuesday, December 14, 2004, 8:30 a.m., Boise, PERSI office (Tentative

EXECUTIVE SESSION:

Chairman Olson noted for the record that Idaho Code Section 67-2345(1)(f) permits the Board to hold an executive session to discuss matters exempt from disclosure (i.e. matters concerning potential litigation). Due to the fact that matters of this type were before the Board, an executive session began at 10:32 a.m.

Adjournment: The Board reconvened in regular session at 10:58 a.m. Chairman Olson said no decisions were made during the executive session regarding potential litigation. There being no further business before the Board, by motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the meeting was adjourned at 10:59 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director